

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
WITH
INDEPENDENT AUDITORS' REPORT

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name CITY OF ADRIAN, MI DIAL-A-RIDE PROGRAM	County LENAWEE
Fiscal Year End JUNE 30, 2007	Opinion Date AUGUST 7, 2007	Date Audit Report Submitted to State NOVEMBER 9, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

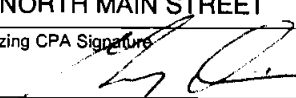
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.		Telephone Number (517) 265-6154	
Street Address 121 NORTH MAIN STREET		City ADRIAN	State MI
Zip 49221			
Authorizing CPA Signature 	Printed Name GARY OWEN		License Number 1101008646

August 7, 2007

City of Adrian
State of Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of net assets of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan as of June 30, 2007 and 2006, and the related statements of revenues, expenditures and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Due from other governments	\$ 46,204	\$ 45,158
Accounts Receivable	<u>707</u>	<u>320</u>
Total current assets	46,911	45,478
Capital assets:		
Vehicles, less accumulated depreciation of \$371,114 and \$310,858, respectively	<u>265,192</u>	<u>252,731</u>
Total assets	<u>\$ 312,103</u>	<u>\$ 298,209</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Due to General Fund	\$ 33,056	\$ 36,116
Due to other governmental units	6,543	8,183
Vouchers payable	<u>7,312</u>	<u>1,179</u>
Total current liabilities	<u>46,911</u>	<u>45,478</u>
Net assets:		
Invested in capital assets – net of related debt	<u>265,192</u>	<u>252,731</u>
Total net assets	<u>\$ 265,192</u>	<u>\$ 252,731</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:	\$ 99,806	\$ 87,590
Operating expenses:	<u>(487,901)</u>	<u>(455,245)</u>
Operating loss	(388,095)	(367,655)
Nonoperating revenues:	<u>234,326</u>	<u>228,039</u>
Loss before transfers and contributions	(153,769)	(139,616)
Transfer – General Fund of City of Adrian	91,411	84,285
Capital contribution – State	<u>74,819</u>	<u>110,932</u>
Change in net assets	12,461	55,601
Total net assets – beginning	<u>252,731</u>	<u>197,130</u>
Total net assets – ending	<u>\$ 265,192</u>	<u>\$ 252,731</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 99,419	\$ 87,270
Cash paid to suppliers	(214,949)	(196,040)
Cash paid to employees	<u>(206,101)</u>	<u>(205,197)</u>
Net cash used in operating activities	<u>(321,631)</u>	<u>(313,967)</u>
Cash flows from noncapital financing activities:		
Grant received - Federal	75,836	68,110
Grant received - State	157,444	186,609
Operating transfers from General Fund	<u>88,351</u>	<u>59,248</u>
Net cash provided by noncapital financing activities	<u>321,631</u>	<u>313,967</u>
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

	<u>2007</u>	<u>2006</u>
Operating loss	\$ (388,095)	\$ (367,655)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	62,358	55,331
Changes in Assets and Liabilities;		
Increase (decrease) in accounts receivable	(387)	(320)
Increase (decrease) in vouchers payable	6,133	(3,157)
Increase (decrease) in due to County	<u>(1,640)</u>	<u>1,834</u>
Total adjustments	<u>66,464</u>	<u>53,688</u>
Net cash used in operating activities	<u><u>\$ (321,631)</u></u>	<u><u>\$ (313,967)</u></u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The records of the Dial-A-Ride System Enterprise Fund are maintained on the accrual basis of accounting, as prescribed by the State of Michigan.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. PROPERTY ASSETS

Vehicles are stated at cost or fair market value at date of gift. The vehicles in use by the Dial-A-Ride System Enterprise Fund are purchased by the State. If the program should end, the vehicles would be returned to the State. The buses are depreciated over four years on a straight line basis.

Radios, computer equipment, and office furnishings have also been received from the State and are being depreciated over four, five, and ten years, respectively, on a straight line basis.

Property assets on the balance sheet at June 30, 2007 are:

Land	\$ 22,868
Building	86,864
Radios	31,242
Equipment and office furnishings	25,192
Vehicle cost	470,140
Less: Accumulated depreciation	<u>(371,114)</u>
	<u>\$ 265,192</u>

3. COMMITMENTS

The City of Adrian has contracted with Quick Service Transportation Company of Adrian, Michigan to operate the Dial-A-Ride System Enterprise Fund. The City of Adrian pays the Transportation Company \$338 per month for rental of a dispatch center and bus parking area, \$1,400 per month for administrative duties and makes reimbursement for all direct expenses of Dial-A-Ride.

4. TRANSPORTATION AGREEMENT AND COST ALLOCATION

The Dial-A-Ride System provides semi-fixed route service to the City of Adrian residents. The Lenawee Transportation Corporation (LTC) operates a separate service for Lenawee County residents. On September 17, 1984, LTC and the City of Adrian entered into an agreement to provide public transportation to both service areas by sharing in a transportation coordinator, clerical and support assistance, and office space.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

4. TRANSPORTATION AGREEMENT AND COST ALLOCATION (Continued)

LTC pays the wages and fringe benefits of the transportation coordinator, and the City of Adrian provides the clerical and support assistance, and office space for LTC.

At this time, a formula has been worked out for the allocation of costs between Lenawee Transportation Corporation and the City of Adrian. This formula or allocation plan has been accepted by the Michigan Department of Transportation. Based on this plan, the allocated costs have been determined for the year. The difference in the allocated costs between the two units has been set up as a receivable or payable by the applicable unit.

5. CAPITAL GRANTS

In fiscal year 2006-06, the Dial-A-Ride System Enterprise Fund had the following capital grant activity:

<u>Capital Grant Contract Number</u>	<u>Grant Award</u>	<u>2006-07 Expenditures</u>	<u>Prior Year Expenditures</u>	<u>Remaining Grant</u>
200-0460/A4	\$ 490,649	\$ 1,600	\$ 160,808	\$ 328,241
98-0792/A7	65,000	25,695	39,305	-
2001-0527/A2	417,565		96,688	320,877
2001-0850/A2	468,750	42,332		426,418
2002-0002-Z4/R1	150,000			150,000
2002-0002-Z12	60,000			60,000
2002-0002-Z6	3,308	708	2,600	191
2002-0002-Z10	16,000	11,517	1,261	3,222

6. CHANGES IN CAPITAL CONTRIBUTIONS

Changes in capital contributions for the year ended June 30, 2007 consist of the following:

	<u>State</u>	<u>Local</u>	<u>Total</u>
Balance - July 1, 2006	<u>\$ 252,731</u>	<u>\$ -</u>	<u>\$ 252,731</u>
Add:			
New property assets	74,819		74,819
Deduct:			
Depreciation	<u>(62,358)</u>		<u>(62,358)</u>
Balance - June 30, 2007	<u>\$ 265,192</u>	<u>\$ -</u>	<u>\$ 265,192</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

7. INELIGIBLE EXPENSES

Ineligible expenses are classified appropriately to the definition in the Local Public Revenue and Expense Manual. The following are adjustments to eligible expenses:

Depreciation

Depreciation expense is a non-allowable expense because all capital assets were purchased with State or Federal dollars.

Audit fee

Audit fee is an allowable expense under Section 5311 funding if there was a single audit of the organization in the prior year.

Grant reimbursement

Grant funding of repair items, which were expended, are offset against such expenses.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
OPERATING REVENUES
For the Years Ended June 30, 2007 and 2006

	7/01/06 To <u>9/30/06</u>	10/01/06 To <u>6/30/07</u>	7/01/05 To <u>9/30/05</u>	10/01/05 To <u>6/30/06</u>
Operating revenues:				
Fares – Demand response	\$ 20,908	\$ 70,224	\$ 20,622	\$ 66,421
Other	<u>410</u>	<u>8,264</u>	<u> </u>	<u>547</u>
Total operating revenues	<u>\$ 21,318</u>	<u>\$ 78,488</u>	<u>\$ 20,622</u>	<u>\$ 66,968</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND

OPERATING REVENUES

For the Years Ended September 30, 2006

	10/01/05 To <u>6/30/06</u>	7/01/06 To <u>9/30/06</u>	<u>Total</u>
Operating revenues:			
Fares – Demand response	\$ 66,421	\$ 20,908	\$ 87,329
Other	<u>547</u>	<u>410</u>	<u>957</u>
Total operating revenues	<u>\$ 66,968</u>	<u>\$ 21,318</u>	<u>\$ 88,286</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND

NONOPERATING REVENUES

For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
State of Michigan Operating Grant -		
Formula Operating Assistance (Act 51) -		
State's current year	\$ 122,685	\$ 116,569
Formula Operating Assistance (Act 51)		
State's prior year ended September 30, 2006	38,118	48,240
Formula Operating Assistance (Act 51) -		
other prior years	1,718	5,501
U.S. D.O.T. -		
Operating Grant - Section 5311 -		
State's current year	50,826	44,191
Operating Grant - Section 5311 – State's		
prior year ended September 30, 2006	<u>20,979</u>	<u>13,538</u>
Total nonoperating revenues	<u><u>\$ 234,326</u></u>	<u><u>\$ 228,039</u></u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND

OPERATING EXPENSES

For the Years Ended June 30, 2007 and 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor:				
Salaries and wages	\$ 206,102	\$	\$	\$ 206,102
Other salaries and wages	18,170		2,040	20,210
Fringe benefits	90,520			90,520
Services:				
Advertising			404	404
Other services		44,714	2,450	47,164
Materials and supplies consumed:				
Fuel and lubricants	44,716			44,716
Other materials and supplies	2,544		2,145	4,689
Utilities:				
Telephone	1,580			1,580
Casualty and liability insurance costs	5,322			5,322
Leases and rentals	4,394			4,394
Miscellaneous	371		71	442
Depreciation	<u>62,358</u>	<u> </u>	<u> </u>	<u>62,358</u>
For year ended June 30, 2007	<u>\$ 436,077</u>	<u>\$ 44,714</u>	<u>\$ 7,110</u>	<u>\$ 487,901</u>
For year ended June 30, 2006	<u>\$ 412,351</u>	<u>\$ 37,346</u>	<u>\$ 5,548</u>	<u>\$ 455,245</u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

For the Year Ended June 30, 2007

	<u>Grants</u>	<u>Operation</u>	<u>Total</u>
Labor	\$	\$ 206,102	\$ 206,102
Other salaries and wages		20,210	20,210
Fringe benefits		90,962	90,962
Services		47,568	47,568
Materials and supplies		49,405	49,405
Utilities		1,580	1,580
Casualty and liability costs		5,322	5,322
Depreciation		62,358	62,358
Leases and rentals		4,394	4,394
	<u>\$ -</u>	<u>\$ 487,901</u>	<u>\$ 487,901</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OBLIGATIONS
For the Year Ended June 30, 2007

	<u>Federal Section 5311</u>		<u>State Operating Assistance</u>	
	<u>MI-18-X039</u>	<u>2002-0002-Z12</u>		
	<u>7/01/06</u>	<u>10/01/06</u>	<u>7/01/06</u>	<u>10/01/06</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>To</u>
	<u>9/30/06</u>	<u>6/30/07</u>	<u>9/30/06</u>	<u>6/30/07</u>
Expenses:				
Labor	\$ 55,945	\$ 150,157	\$ 55,945	\$ 150,157
Other salaries and wages	4,680	15,530	4,680	15,530
Fringe benefits	20,038	70,482	20,038	70,482
Services	5,694	41,874	5,694	41,874
Materials and supplies	12,729	36,676	12,729	36,676
Utilities	691	889	691	889
Casualty and liability costs	1,331	3,991	1,331	3,991
Depreciation	15,590	46,768	15,590	46,768
Leases and rentals	1,014	3,380	1,014	3,380
Miscellaneous	<u>300</u>	<u>142</u>	<u>300</u>	<u>142</u>
Total expenses	<u>118,012</u>	<u>369,889</u>	<u>118,012</u>	<u>369,889</u>
Less ineligible expenses -				
Depreciation	(15,590)	(46,768)	(15,590)	(46,768)
Grant reimbursement	<u>(3,099)</u>	<u>(3,935)</u>	<u>(3,099)</u>	<u>(3,935)</u>
Total ineligible expenses	<u>(18,689)</u>	<u>(50,703)</u>	<u>(18,689)</u>	<u>(50,703)</u>
Total eligible expenses	<u>\$ 99,323</u>	<u>\$ 319,186</u>	<u>\$ 99,323</u>	<u>\$ 319,186</u>
Maximum Section 5311				
Reimbursement – 17%		<u>\$ 54,262</u>		
Reimbursement – 17%				
(Includes adjustment of first nine months)	<u>\$ 22,777</u>			
State Assistance -				
Limited To 38.8857%			<u>\$ 37,527</u>	
(Includes adjustment of first nine months)				
Limited to 38.6208%				<u>\$ 123,272</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OBLIGATIONS
For the Year Ended September 30, 2006

	<u>Federal Section 5311</u> <u>MI-18-X039</u>			<u>State Operating</u> <u>Assistance</u>		
	<u>7/01/05</u> <u>To</u> <u>6/30/06</u>	<u>7/01/06</u> <u>to</u> <u>9/30/06</u>	<u>Total</u>	<u>10/01/05</u> <u>to</u> <u>6/30/06</u>	<u>7/01/06</u> <u>To</u> <u>9/30/06</u>	<u>Total</u>
Expenses:						
Labor	\$ 150,533	\$ 55,945	\$ 206,478	\$ 150,533	\$ 55,945	\$ 206,478
Other salaries and wages	13,097	4,680	17,777	13,097	4,680	17,777
Fringe benefits	60,658	20,038	80,696	60,658	20,038	80,696
Services	27,644	5,694	33,338	27,644	5,694	33,338
Materials and supplies	36,330	12,729	49,059	36,330	12,729	49,059
Utilities	2,025	691	2,716	2,025	691	2,716
Casualty and liability costs	3,623	1,331	4,954	3,623	1,331	4,954
Depreciation	41,504	15,590	57,094	41,504	15,590	57,094
Leases and rentals	3,045	1,014	4,059	3,045	1,014	4,059
Miscellaneous		300	300		300	300
Total expenses	<u>338,459</u>	<u>118,012</u>	<u>456,471</u>	<u>338,459</u>	<u>118,012</u>	<u>456,471</u>
Less ineligible expenses -						
Depreciation	(41,504)	(15,590)	(57,094)	(41,504)	(15,590)	(57,094)
Grant reimbursement		(3,099)	(3,099)		(3,099)	(3,099)
Audit fee	<u>(2,350)</u>		<u>(2,350)</u>			
Total ineligible expenses	<u>(43,854)</u>	<u>(18,689)</u>	<u>(62,543)</u>	<u>(41,504)</u>	<u>(18,689)</u>	<u>(60,193)</u>
Total eligible expenses	<u>\$ 294,605</u>	<u>\$ 99,323</u>	<u>\$ 393,928</u>	<u>\$ 296,955</u>	<u>\$ 99,323</u>	<u>\$ 396,278</u>
Maximum Section 5311 Reimbursement – 17%			<u>\$ 66,968</u>			
State Assistance - Limited To 38.8857%						<u>\$ 154,095</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
VEHICLE MILES AND HOURS REPORT
For the Year Ended June 30, 2007

<u>Demand – Response</u>	Public Transportation <u>Mileage</u>	Week Day <u>Hours</u>
First Quarter – 7/1/06 to 9/30/06	\$ 35,135	\$ 2,946
Second Quarter – 10/01/06 to 12/31/06	35,756	3,067
Third Quarter – 1/1/07 to 3/31/07	37,430	3,180
Fourth Quarter – 4/1/07 to 6/30/07	<u>35,970</u>	<u>3,049</u>
	<u>\$ 144,291</u>	<u>\$ 12,242</u>

There are no weekend miles or hours.

NOTE: The methodology used for compiling mileage and hours has been reviewed and found to be an adequate and reliable method for recording vehicle mileage and hours.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
VEHICLE MILES AND HOURS REPORT
For the Year Ended September 30, 2006

<u>Demand – Response</u>		Public Transportation <u>Mileage</u>	Week Day <u>Hours</u>
First	Quarter – 10/1/05 to 12/31/05	\$ 35,877	\$ 2,594
Second	Quarter – 1/01/06 to 3/31/06	38,480	2,802
Third	Quarter – 4/1/07 to 6/30/06	36,572	3,081
Fourth	Quarter – 7/1/06 to 9/30/06	<u>35,135</u>	<u>2,946</u>
		<u>\$ 146,064</u>	<u>\$ 11,423</u>

There are no weekend miles or hours.

NOTE: The methodology used for compiling mileage and hours has been reviewed and found to be an adequate and reliable method for recording vehicle mileage and hours.

ROBERTSON
EATON
&
OWEN

P.C.

August 7, 2007

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We appreciate the opportunity to conduct your audit this year. We are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and whether these deficiencies (if any) are determined to be significant deficiencies or material weaknesses.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan, for period ending June 30, 2007, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. It is important to note that control deficiencies are not necessarily problems you will choose to address, however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control. During our audit we found no significant deficiencies in internal control.

Materials Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. During our audit we found no material weaknesses.

However, other matters concerning the City and its operation are reported to you in the remainder of this report.

System for locating grant documents

In the past year, the City has started to accumulate grant information in one location. That location being centralized computer files. Although this procedure has been started, it may take some time before it is fully implemented.

Possibly, an easier approach would be to maintain an up-to-date listing of all grants currently being administered by the City and have this listing kept by the City's Finance Department. Each month, all Departments of the City would submit a report to the Finance Department showing all grants that the

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Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

respective Departments are currently handling, and provide information on the status of each grant and who is in charge of the documents for the grant.

Pension Plan

An update on the City's defined benefit pension plan through Municipal Employees Retirement System of Michigan (MERS) based on the actuarial evaluation as of December 31, 2006. The unfunded actuarial accrued liability at December 31, 2006 was \$5,872,651; compared to \$4,835,802 at December 31, 2005.

The actual City's contribution to the pension plan was \$816,109 for fiscal year 2006-07.

Capital Assets – Dial-A-Ride Transportation System

If the City ever has to provide local funding for the purchase or construction of capital assets for the Dial-A-Ride Transportation System, the local share of the capital asset cost can be reimbursed through State funding (ACT 51) and Federal funding (Section 5311). The reimbursement would be based on the depreciation expense taken each year.

The one requirement needed to receive reimbursement is that the Michigan Department of Transportation has to approve the useful lives of the capital assets.

Financial Condition

The City continues to maintain a good financial position. The General Fund's fund balance was \$6,123,518 at June 30, 2007. And, the unreserved portion of this balance was \$1,304,717.

Due to the amount of debt in the Wastewater System Fund and the Water System Fund, it is prudent to closely monitor utility rates, usage, and ongoing operation costs of these funds.

This written communication is intended solely for the information and use by City management, those charged with your organization's governance, others you deem appropriate within your organization, and any governmental authorities you need to share this information.

Again, we appreciate the assistance provided by the City during our audit.

Robertson, Eaton & Owen, P.C.